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SENSITIVE
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DEPT FOR AF/C
USUN FOR DMUERS
PARIS FOR RKANEDA
LONDON FOR PLORD
NAIROBI FOR AKARAS
AFRICOM FOR JKUGEL
INR FOR JPEKKINEN
DRL FOR SCRAMPTON
EEB FOR BROOKS-RUBIN
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TAGS: [PGOV](#) [PREL](#) [PHUM](#) [PINR](#) [KCOR](#) [ECON](#) [EFIN](#) [EMIN](#) [CT](#)
SUBJECT: DIAMONDS IN THE CAR: DELETERIOUS TO DEVELOPMENT

REF: A. A - 10 Bangui 02 and previous
[B](#). B - 07 Bangui 167
[C](#). C - 09 Bangui 207
[D](#). D - 09 Bangui 273 and previous

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[1](#)1. (SBU) SUMMARY: The Central African Republic (CAR) is at the bottom of the UN's Human Development Index while at the same time possessing vast mineral wealth that could fuel economic growth. Diamonds, in particular, make up roughly 45 percent of all exports from the CAR. Yet, despite participation in the Kimberly Process (KP), the diamond trade remains the most opaque sector of the Central African economy. Sadly, these resources are largely lost due to extensive official corruption, widespread mismanagement, and rampant smuggling. The root of the problem lies with CAR government officials, at the highest level, who, although they desire the international seal of approval for diamond sales that the KP provides, do not wish to see a transparent production and export process eat into the fruits that corruption and other dubious practices allow. Disturbingly, it is also increasingly evident that that diamonds are a driving factor in the continued violence in northeast CAR (Ref A). END SUMMARY.

No Dearth of Diamonds

[1](#)2. (U) According to the US Geological survey's latest statistics, the CAR is the 10th largest producer of gem diamonds and 15th largest producer of industrial diamonds. Another estimate from the UN put the CAR's gem diamond production at number five worldwide. One expert asserts that at the rate of current exploitation, the CAR will continue to produce quality diamonds for the next 75 to 100 years. Today, all diamonds are extracted via artisanal panning of open pits as opposed to industrial mining, with the few remaining industrial diamond operations suspended pending sale. Central African diamonds are

alluvial, meaning they are found in sand and gravel deposits left by river flows. Diamonds are found throughout southwestern CAR and in the more politically troubled northeast. Embassy Bangui did an extensive report on the dynamics of diamond mining the CAR in 2007 (Ref B) that remains relevant today.

¶3. (U) Prospecting is carried out by small groups of miners who make 10,000-15,000 CFA (\$20-\$30) per carat for a rough stone on the white market. Official total production averages 380,000 carats per year over the last four years. Only about five percent of miners have licenses, which cost CFA 46,500/year (about USD 100), far beyond the capacity of most artisanal miners to pay. The collectors, next on the food chain, must pay 1.5m CFA per year (about USD 3,300) to legally purchase diamonds.

¶4. (SBU) Most local diamond miners and traders simply pay a bribe to local Ministry of Mines (MoM) officials or smuggle the diamonds out of CAR. A 2003 Kimberley Process document, signed by the CARG, estimates that fraudulent exports - smuggling in particular - account for 30 percent of total exports, meaning real production is at least 500,000 carats a year. A former senior official from the MoM believes this number is still reflective of reality in 2010. The current tax rate is approximately 12 percent. According to a former Ministry of Plans official, when the taxes and fees were lowered in the past, the "output" of diamond buyers in Cameroon and Congo-B plummets, a clear indication that many CAR diamonds are smuggled to avoid taxes. The CAR's geographic location also makes it difficult to track illicit diamond smuggling: with neighboring countries Congo-Brazzaville, Cameroon, Chad, and Sudan not members of the Kimberley Process, it is difficult to know how many stones end up on other markets monitored less closely by the KP and other diamond industry watchdogs.

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CARG and Diamonds: Not Dedicated to Development

¶5. (SBU) Diamond smuggling and corruption touch the highest levels of the CAR. In 2004, about a year after he came to power in a coup, President Bozize was briefly detained in a German airport with a briefcase full of diamonds. One former MoM official described in detail the process by which many well known political figures pay for artisanal miners to dig diamonds - or simply buy them from collectors - and then use official travel to carry the stones to Europe where they are then sold.

¶6. (SBU) The CARG has been liberal in its granting of diplomatic passports and titles to citizens and non citizens alike whose involvement in the diamond trade is well known. The most famous example of this is Anglo-Pakistani Saifee Durbar. Durbar was named deputy Minister of Foreign Affairs while resident in London in an effort to protect him from a French arrest warrant for fraud. French pressure did eventually force the CARG to retract the title and diplomatic immunity and Durbar was arrested in late 2009, but the trend continues with a spate of new CAR diplomatic passports recently being issued to South Korean nationals. Unfortunately, international diplomats are known to participate in the trade as well, with the situation being so severe that Embassy Bangui staff assumes that most of the honorary consuls in Bangui must be engaged in the diamond trade to some degree.

¶7. (SBU) At a more technical level, senior officials at the Ministry of Mines are complicit in keeping diamond production out of official channels in order to extract bribes from collectors and consolidate control of their sale into a few choice hands. Moreover, the closure of eight of the eleven registered diamond buying houses by the Ministry of Mines in September 2008 restricted legal trade to a small group of merchants who are very closely tied to the highest levels of government - and dramatically cut down competition. One contact who runs a diamond business in Bangui asserted that the three

remaining diamond houses paid the MoM to take this action, enhancing their oligopoly. This artificial restriction of the legal market, combined with a global decline in diamond prices, has caused widespread cases of severe malnutrition in the southwest (Ref C).

18. (SBU) The 2009 CAR Mining Code is widely seen by the business community as a dangerous, state driven money grab that will discourage new investment at an industrial level. Some of its more troublesome provisions are:

-- A bonus payment of an unspecified amount to fund a ``Mining Development Fund'' controlled by the Minister of Mines. The amount will be specified in a Mining Convention to be negotiated with each company so it gives the Minister total discretion on how much he demands, and more importantly, how much he declares. The bonus must also be paid before any prospecting begins, making it a very expensive gamble for any potential investor.

-- 15 percent for the State in free carried interest in any mining project (NOTE: Completely land locked, with no railroads and with only 600km of paved roads, transports costs are massive in the CAR. Additionally, according to business contacts, most other countries that are more developed than the CAR only require 10 percent. END NOTE).

-- 15 percent of the production for the State, whether in cash or product.

There have been no industrial mining contracts, whether for diamonds, gold, or uranium, signed since 2006. One long present businessman saying that while many foreign companies have looked into the CAR since that time, none were willing to invest in a country with its toxic mix of infrastructure problems and

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government interference.

19. (SBU) Another example of the government's lack of desire for transparency is evident in the MoM's treatment of the USAID funded Property Rights and Artisanal Diamond Development (PRADD) project. The PRADD project seeks to strengthen the KP by helping mine owners map and certify their claims, evaluate the worth of stones, and alleviate environmental degradation. Mid-level functionaries at the MoM are enthusiastic about strengthening CAR's KP credentials and formalizing the diamond sector. Senior officials, however, are suspicious and obstructive. They insist PRADD should buy the expensive patents for miners, money that would go straight into their pockets. They have blocked assistance to ``illegal'' miners, leaving them to be exploited by corrupt MoM officials and the diamond buying houses. They have even gone so far as to briefly arrest the project head in mid 2008 for ``unauthorized travel,'' and have delayed signing a new MOU.

Diamonds Driving Discord

10. (SBU) Although the situation in northeastern CAR is complicated, fluid, and unclear, we are increasingly suspicious that diamonds are playing a role fueling and funding the conflict.

-- The virtual takeover of northeastern CAR by the Union of Democratic Forces for Unity (UDFR) militia in 2007 has lead to the de facto control of the economy by the Goula ethnic group (Ref A). Diamonds, along with animal poaching and agriculture, are the major commercial staples in the area, and the UFDR is suspected to be heavily involved in the two former trades. The UFDR is also thought to be deeply implicated in the diamond fields of Sam Ouandja, with one of their largest contingents based strategically outside of the town. The UFDR militia, furthermore, stands accused of murdering two major Rounga diamond merchants in 2008 and pushing others off the diamond fields in the Vakaga prefecture in favor of those from their own

ethnic group. The UFDR controls the few roads in the region, allowing them to control most of the trade to the rest of the CAR and neighboring Sudan.

-- Diamonds may very well sit at the heart of the simmering conflict between the government and the Patriotic Convention for Justice and Peace (CPJP), an armed group dominated by the Rounga (Ref D). The CPJP militia formed in 2008 after the Rounga were expelled from their diamond fields in the Vakaga by the UFDR and swiftly moved southwest to Ndele - traditional home of the Rounga and location of diamonds deposits dating back to the 1950s. Though their leadership remains shrouded in mystery, a number of well informed contacts believe the funding for the militia comes from these diamond assets.

Both areas lack more than a basic economy and diamonds are used to barter for products coming from Sudan and Chad.

11. (SBU) COMMENT: Although the CAR is so rich in gem diamonds the stones are literally picked up off the ground by unskilled laborers, most of this wealth is drained away by mismanagement and corruption, or used to fuel violence. Sadly, the Central African budget is deeply affected by the sanctioning of smuggling and other irregularities at the highest levels and retarding critical government lead development work. Through projects such as PRADD, the USG is attempting to work with the donor community and better elements in the CARG to increase transparency and retain more diamond wealth in the rural communities. Though details are difficult to obtain, Post would appreciate assistance from neighbor posts and Washington in collecting more complete information on the extent of CAR's diamond smuggling problem, which would help us determine the

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true scope of the wealth that is lost to this country. This information would be tremendously useful to have in conversations with partners in the international community and the CARG. END COMMENT.
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